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SUBJECT: FSM COMPACT INFRASTRUCTURE STARTS TO ROLL AND TO REQUIRE
ENHANCED MANAGEMENT

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1.(U) Ref A provided useful guidance. At a subsequent meeting with Federated States of Micronesia (FSM) President Emanuel Mori on May 5, Ambassador Miriam Hughes conveyed key points. Pursuant to Para 3 of Ref A, she explained that although the Embassy sought to be helpful, post could not become too involved in an internal FSMNG personnel issue with a contract employee.

12. (SBU) The President acknowledged that he was responsible for the decision to fire Mr. Robert Westerfield based upon his own observations and a volume of complaints he had received from FSM state and Congressional officials. He reiterated that he had discussed this decision with the Department of the Interior (DOI) Acting Deputy Assistant Secretary Nik Pula in Honolulu on April 8. He had called Ambassador Hughes to his office on April 15 to ensure the Embassy was in the loop. Looking ahead, he emphasized the need to find a qualified replacement for Westerfield with strong construction engineering, contract and management skills. Mori said he appreciated the assistance of the Embassy's Defense Liaison, Admiral French of COMNAVMARIANAS, whom the President telephoned on April 16. In response to a question from the Ambassador, the President said he had already instructed his Public Information Officer to create a website for the Project Management Unit (PMU), which would intend to post information on Compact infrastructure projects and budgets.

13. (U) Reviewing a troubled history of Compact infrastructure implementation and internal political intrusion within the FSM, Mori shared his concern that if the PMU is found deficient, operations could again shut down and bring the emerging projects to a halt. He recalled the FSM's bad experience with an American company, GMP of Hawaii, which the FSMNG contracted approximately four years ago to manage the infrastructure contracts. An investigation by DOI's Office of the Inspector General revealed contractual conflicts and cost overruns that led to the cessation of Compact payments to GMP, which had operated under the auspices of the FSM Department of Transportation, Communication and Infrastructure (TC&I).

14. (U) When President Mori took office in 2007, he transferred the remnants of the PMU from TC&I to his own office in order to reinvigorate Compact infrastructure. Recently, the FSM Congress voted unanimously to return the PMU back to the Department of TC&I. President Mori vetoed this recent measure, the Congress overrode the veto and the President then delivered a letter to the Congress on April 27 that reportedly explains why he is not ready to move the PMU at this time. Mori continues to take a strong, personal interest in Compact infrastructure as a key stimulus to economic development.

15. (SBU) On May 7, DOI Infrastructure Grant Manager Steve Savage briefed Ambassador Hughes on PMU operations, stating that \$2.1 million of the annual Compact infrastructure grant currently covers costs of PMU operating expenses. Finding a qualified replacement for Westerfield on a limited budget will be

problematic and potentially serious, as Westerfield makes the major contract decisions, Savage said. As a backlog of Compact infrastructure projects comes on stream, at an accumulated value of some \$130 million, Savage and Hughes agreed that the PMU needs more engineers and stronger management. Under the amended Compact, the FSM will continue to receive annual infrastructure allocations of some \$24 million a year, or 30 percent of the value of all the sector grants. Given the current PMU configuration and lack of Micronesian capacity, it is unclear whether the FSMNG is up to managing this challenge.

¶6. (SBU) Comment. One positive aspect of recent developments is the initiative of President Mori to reach out to three U.S. representatives to discuss a significant Compact issue. Otherwise, communication at the FSM national level is generally compartmentalized and secretive, fueling political tension. If a PMU website is indeed developed and maintained, the universal ease of access to information on current and future projects, costs and bid procedures could help allay suspicion and jealousy among the four FSM states, the national Congress and potential bidders on construction projects. However, the efficiency and professional capacity of the PMU itself is likely to remain a problem. For all of President Mori's urgent concern, his administration has still not posted a vacancy announcement for Westerfield's position. Anything we can do to work appropriately with the Micronesians, DOI and others to strengthen FSM self-capacity to absorb and apply our considerable Compact aid lies at the heart of U.S. interests here. Development and democratic maturation depend upon it.

HUGHES